

**STATE OF NORTH CAROLINA
COUNTY OF DURHAM**

**THIRD DEED OF TRUST NOTE
CONSTRUCTION/PERMANENT LOAN**

\$193,506 _____, 2014

FOR VALUE RECEIVED, the undersigned, Vermilion Homestead, LLP, a North Carolina limited liability company ("Borrower"), the mailing address of which is c/o of James L. Yamin, 14 Brewery Lane, Tryon, NC 28782, promises to pay to the order of the City of Durham, North Carolina ("City"), at its offices located at 101 City Hall Plaza, Durham, North Carolina 27701 or at such other place as the City may designate in writing, the principal sum of One Hundred Ninety Three Thousand Five Hundred Six and No/100 Dollars (\$193,506.00) or so much thereof as may be advanced by the City pursuant to the Third Deed of Trust Construction/Permanent Loan Agreement of even date herewith between the Borrower and the City or any modification thereof (the "Loan Agreement") and all additions to said principal as provided herein or therein, interest shall be paid by the Borrower at the rate of one percent (1%) per annum on the unpaid principal balance of \$193,506.00 (the "Loan"), during the Permanent Phase, and at an interest rate of zero (0)% during the Construction Term, so long as there is no Event of Default as defined in the Loan Documents. Principal and interest shall be due and payable as hereinafter provided.

1. Definitions. Any terms not specifically defined herein shall be as defined in the Loan Agreement of even date herewith. As used herein, the following terms shall be defined as follows:

Construction Term. Subject to satisfaction by the Borrower of the conditions precedent as provided in the Loan Agreement, the "Construction Term" shall mean the period of time from the date of this Note until up to twenty (24) months after such date (the "Construction Term Maturity Date"). In the event that Borrower properly exercises its option to convert the Loan to a Permanent Loan in accordance with Article V of the Loan Agreement, the Construction Term shall end on the day immediately preceding the commencement of the Permanent Term as provided for in Section 5.3 of the Loan Agreement. Under no circumstance, however, shall the Construction Term Maturity Date or any extension thereof extend beyond November 30, 2016. Notwithstanding anything herein to the contrary, if the Borrower fails to satisfy the condition precedent as provided in Section 5.1 of the Loan Agreement, then the Construction Term Maturity Date shall be twenty (24) months from the date of this Note.

Permanent Term. The Permanent Term shall mean the period of time from the commencement of the Permanent Term as provided for in Section 5.3 of the Loan Agreement and expiring up to 20 years thereafter, but in no event later than the last day of October, 2036, (the "Permanent Term Maturity Date").

2. Payments. Payments of principal and interest shall be due and payable as follows:

2.1 Construction Term. No payments are due during the Construction Term.

2.2 Permanent Term. If the Permanent Term commences as provided in Article V of the Loan Agreement, the following payments of principal and interest shall thereafter be due:

2.2.1 Payments of Principal. Beginning with the Permanent Term and ending at the end of twenty (20) years, Borrower shall pay to City nineteen and forty eight hundredths percent (19.48%) times one hundred percent (100%) of the Cash Flow available for subordinate debt from Cash Flow. Such payments to City shall be applied first to accrued and outstanding interest, then principal in this Note until this Note is paid in full. Accrued payments shall be made within ninety (90) days following the end of each Fiscal Year.

3. Prepayment. The Borrower may prepay the indebtedness evidenced by this Note in whole or in part at any time without any prepayment penalty or fee. The City requires that any partial prepayments be made on the first day of the month and that such partial prepayments be in the minimum amount of \$5,000 or multiples thereof.

4. Late Payments Fees. In the event Borrower fails to pay any installment due during the Permanent Term within fifteen (15) days after the same shall become due, the City may impose a late payment charge upon the Borrower of five (5) percent of the amount of such payment. Such late payment fees as may accrue shall constitute a part of the indebtedness due hereunder and the payment thereof shall be secured by the Deed of Trust (as hereinafter defined).

5. Application of Payments. Each prepayment or other payment made by the Borrower shall, unless the City elects otherwise, be applied in the following order: First, to the repayment of any advances, if any, made by the City under any Loan Documents (as such term is defined in the Loan Agreement) (i) to cure Borrower's default thereunder or (ii) to protect the security provided by the Deed of Trust; second, to any accrued interest due; third, to the payment of any late fees due under Paragraph 4 hereof; and fourth, to the reduction of the principal balance outstanding hereunder.

6. Related Documents. This Note is secured by a Third Deed of Trust of even date herewith (the "Deed of Trust") executed by Borrower conveying certain property located in Durham, North Carolina. This Note, evidences the Loan made by the City to the Borrower pursuant to the Loan Agreement. The Loan Agreement and the Deed of Trust grant the City certain rights to accelerate the indebtedness due hereunder because of the Borrower's default hereunder or thereunder and provide for various remedies to the City in the event the Borrower defaults.
7. Default. If there shall occur an Event of Default not cured within any applicable cure period under the Loan Agreement, Deed of Trust, or any other Loan Documents then, or at any time thereafter: (a) the entire principal balance outstanding hereunder, with accrued interest, shall, at the City's option and without notice to the Borrower, become immediately due and payable; and (b) the City shall be entitled to exercise any rights or remedies that it may have under the Deed of Trust, the Loan Agreement or other Loan Documents, or such other rights or remedies as may be provided by law or equity. The City may exercise the option to accelerate at any time during any such uncured default, regardless of any prior forbearance, and the acceptance of one or more installments from any person thereafter shall not constitute a waiver of the City's option.
8. Default Rate. Subsequent to the occurrence of a default hereunder or of an Event of Default under the Loan Agreement, the Deed of Trust or any other Loan Documents, and continuing until the City has accelerated the due date of the principal hereof because of such default, until the total principal and accrued interest shall have been fully paid, interest on the unpaid principal balance hereof shall accrue at the Default Rate. The Default Rate shall be seven percent (7%) per annum.
9. Costs and Expenses. The Borrower agrees to pay immediately upon the City's demand therefore all reasonable costs and expenses incurred at any time by the City, including without limitation, reasonable attorneys' fees, in connection with collecting the indebtedness due hereunder, enforcing any of its rights and remedies under the Loan Agreement, the Deed of Trust or any other Loan Documents. Without limiting other situations in which the City may properly incur such reimbursable costs and expenses, the City's reasonable costs and expenses incurred in each of the following circumstances shall be included within this obligation: (i) if after any default described in Paragraph 6 hereof, the City employs an attorney to collect the indebtedness due hereunder or to enforce any of its rights or remedies under the Loan Agreement, the Deed of Trust, or the Assignment of Rents of even date herewith from the Borrower to the City; (ii) if the City finds it necessary or desirable upon any such default to obtain the services or advice of its attorneys with regard to the collection of the indebtedness due hereunder or the enforcement of its rights or remedies regardless of whether an actual collection

action is filed or the indebtedness accelerated; or (iii) if the City seeks to have the property encumbered by the Deed of Trust abandoned by any estate in bankruptcy or attempts to have any stay or injunction prohibiting the enforcement or collection of this Note, prohibiting foreclosure of the Deed of Trust, or the enforcement of the City's rights or remedies lifted by any bankruptcy or other court, and any subsequent proceedings or appeals from any order or judgment entered in any such proceeding. In addition, if the City shall be made a party to or shall intervene in any action or proceeding, whether in court or before any governmental agency, affecting the property encumbered by the Deed of Trust or the title thereto or the City's lien thereon, including without limitation, any condemnation proceeding, the City shall be reimbursed by the Borrower immediately upon demand for all costs, reasonable charges and attorneys' fees incurred by the City in any such case and the payment of all such costs and expenses shall be secured by the Deed of Trust. The term "reasonable attorneys' fees" shall include attorneys' fees incurred by the City whether or not suit is brought and if suit is brought, shall include attorneys' fees at trial and on appeal. The amount of such reasonable attorneys' fees shall be determined on the basis of actual time expended and services actually performed by such attorneys and shall not exceed the amount established by the statutory presumption contained in N.C.G.S. §6-21-2.

10. Waiver. All parties liable for payment of the indebtedness due hereunder, whether accommodation makers, sureties, endorser, guarantors, or other parties, hereby waive presentment, demand, protest, notice or protest, nonpayment, dishonor and acceleration of maturity and agree that the time for payment of this Note may be extended from time to time, that this Note may be renewed from time to time, and that any collateral that secures the payment of this Note may be released, all without notice to them and without affecting, in any manner, their liability for payment of this Note.
11. No Personal Liability. Except as provided in this section, neither the Borrower, any of the constituent general or limited partners of the Borrower, nor any of their officers or employees, shall have personal liability for any obligation under this Note or other Loan Documents.

Without regard to and notwithstanding any contrary provisions which may be in the Loan Documents, the Borrower and its general partners shall be fully and personally liable, jointly and severally, to the representative of the City and the City for any loss, cost, expense or liability of the City arising or resulting from:

- (a) any fraud or false representation by the Borrower, the General Partner or any Guarantor with regard to any matter relating to the Loan (as defined in the Loan Agreement) and the security therefor;
- (b) misappropriation or intentional misapplication of insurance or condemnation proceeds;

- (c) collection of rents for more than one month in advance or failure to apply rents to current maintenance, repairs and taxes while a Default exists under the Loan or any of the Loan Documents;
 - (d) Borrower's failure to deliver security deposits of tenants to City following a Default, to the extent permitted by law;
 - (e) permitting or suffering to occur any intentional waste of all or any portion of the Mortgaged Premises which results in loss or damage to the security of the Mortgaged Premises; and
 - (f) The Borrower's failure to comply with completely with any representation, covenant, warranty or provision contained in the Loan Documents regarding environmental laws or hazardous, toxic or other environmentally regulated materials, wastes or substances, and the presence of hazardous, toxic, or other environmentally regulated materials wastes or substances on the Property, including but not limited to, the obligations, requirements and provisions set forth in the Deed of Trust, which results in loss or damage to the Mortgaged Premises.
12. Governing Law. This Note shall be interpreted, construed and enforced according to the laws of the State of North Carolina.
13. Captions and References. The captions of the paragraphs in this Note are for the purpose of convenience only, and shall not be deemed to modify, explain, enlarge or restrict any of the provisions hereof.

[signature page follows]

IN WITNESS WHEREOF, Borrower has duly executed this Note under seal on the date first above written.

BORROWER:
Vermilion Homestead, LLP
a North Carolina limited liability company

By: WHAD Vermilion, LLC
a North Carolina limited liability company,
Its Managing Member

By: Workforce Homestead, Inc.,
a North Carolina corporation,
Its Managing Member

By: _____
James L. Yamin, President

NORTH CAROLINA
COUNTY OF _____

I, a notary public in and for the aforesaid county and state, certify that _____ personally appeared before me this day and stated that he/she is the Assistant/Secretary of Workforce Homestead, Inc., a North Carolina corporation, and that by authority duly given and as the act of the corporation, the foregoing agreement with the City of Durham was signed in its name by James L. Yamin, its President, sealed with its corporate seal, and attested by him/herself as its said Secretary or Assistant Secretary. This the _____ day of _____, 2014.

My commission expires:

Notary Public